

Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 SP-02 USIA-06 AID-05 EB-08
NSC-05 TRSE-00 SS-15 STR-06 OMB-01 CEA-01 CIAE-00
COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03
LAB-04 SIL-01 AGRE-00 PRS-01 PA-01 /097 W
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R 271627Z JAN 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 2516
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY THE HAGUE
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME
USMISSION GENEVA

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USEEC ALSO FOR EMBASSY
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USMTN ALSO FOR MISSION

PASS AGRICULTURE

E.O. 11652: N/A
TAGS: EAGR UK
SUBJECT: HMG COMMONS DEFEAT ON SIZE OF GREEN POUND
DEVALUATION: IMPLICATIONS FOR FARMERS, CONSUMERS, EC
FARM PRICE REVIEW, ETC.
REF: LONDON 906, 1091 AND 1281

BEGIN SUMMARY: COMMONS DEFEATS JANUARY 23 FOR HMG ON
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GREEN POUND DEVALUATION HAVE FAILED TO SATISFY UK FARMERS
CALLS FOR HIGHER PRICES WHILE IMMEDIATE PROBLEM OF
PIGMEAT MCA'S REMAINS UNRESOLVED. DEBATE AGAIN REVEALED
BRITISH ANTAGONISM IN MANY QUARTERS AGAINST CAP AND
AGAIN HIGHLIGHTED DEMANDS FOR MORE ACCEPTANCE OF NATIONAL
MEASURES TO DEAL WITH NATIONAL PROBLEMS PARTICULARLY WHEN
PROBLEMS WHICH NEED URGENT ATTENTION ARISE ONLY IN

CERTAIN SECTORS OF AGRICULTURE. IF AGREEMENT REACHED ON PHASED INTRODUCTION OF 7 1/2 PERCENT DEVALUATION, DEFERRING EFFECT ON CROPS UNTIL BEGINNING 1978-79 MARKETING YEARS THIS SUMMER, EVENTUAL IMPACT ON FOOD COMPONENT OF RPI WILL BE RISE OF 1 1/2 PERCENT AND 0.375 PERCENT ON ALL-ITEMS RPI. END SUMMARY.

1. JANUARY 23 DEBATE (REF LONDON 1281) CLOSELY FOLLOWED USUAL PATTERN WHEN COMMONS DEALS WITH CAP. MOST LABOUR SPEAKERS DEPLORED INFLATIONARY ASPECTS OF DEVALUATION AND OPPOSITION SPEAKERS DWELLING ON DIFFICULTIES OF LIVESTOCK FARMERS AND CLAIMING HMG INTRANSIGENCE ON GREEN POUND IS LEADING TO DIMINISHED ROLE FOR BRITISH FARMERS AND THEREFORE TO EVENTUAL DETRIMENT OF CONSUMERS DESPITE CLAIM THAT CONSUMERS WILL SUFFER FROM DEVALUATION IN 1978.

2. THE IMPACT ON FOOD PRICES WILL OBVIOUSLY VARY ACCORDING TO THE PROPORTION THE CAP RAW MATERIAL VALUE OCCUPIES IN THE FINAL PRICE. THE TIMING IMPACT WILL VARY BOTH IF A PHASED INTRODUCTION OF THE DEVALUATION IS AGREED AND ACCORDING TO STOCKS ALREADY BUILT UP. PROJECTED RISES OF 4 1/2 PENCE PER LB. FOR BUTTER AND CHEESE WHICH WOULD HAVE OCCURRED SOON WILL BE DELAYED BY ALREADY HIGH STOCKS OF IMPORTS. 1 1/2 PENCE PER LB. RISE ON BACON COULD BE DEFERRED A FEW WEEKS AS EC LIMITED OFFICIAL USE

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EXPORTERS RUSH SHIPMENTS IN BEFORE DEVALUATION TAKES EFFECT. BREAD RISE OF 1/2 PENNY PER LOAF AND SUGAR OF 1 1/2 PENCE PER KILO WOULD BE DELAYED UNTIL AFTER NEW MARKETING YEARS THIS SUMMER. BEEF RISE OF 2-3 PENCE PER LB. WILL COME SHORTLY. FARMERS' PRICES FOR LIVESTOCK PRODUCTS WILL RISE ALMOST IMMEDIATELY. AFTER RISE ON CROPS THIS SUMMER, FARM PRICES SHOULD BE UP AN AVERAGE 8.1 PERCENT IN ADDITION TO ANY INCREASE DERIVED FROM EC PRICE REVIEW PROPOSED AT 1.9 PERCENT BY COMMISSION. FOODS COMPONENT OF RPI WILL RISE IN ALL BY 1 1/2 PERCENT FROM THE SELECTIVE 7 1/2 PERCENT DEVALUATION AND THE TOTAL RPI BY 0.375 PERCENT. AN IMMEDIATE 7 1/2 PERCENT DEVALUATION ON ALL CAP ITEMS WOULD HAVE RAISED THE FOOD RPI BY 2 PERCENT. THE HMG 5 PERCENT PROPOSAL WOULD HAVE RAISED THE FOOD RPI BY ONE PERCENT. MCA'S WILL FALL BY ABOUT 25 PERCENT TO 0.75 MILLION POUNDS PER DAY.

COMMENT:

3. IN VIEW OF THE MINUTE DIFFERENCE ON THE RATE OF INFLATION BETWEEN THE LABOUR AND OPPOSITION DEVALUATIONS, ONE MIGHT WELL WONDER "WHY ALL THE FUSS?" IT NEEDS TO BE BORNE IN MIND, HOWEVER, THAT BASICALLY THE DIFFERENCE

BETWEEN SIZEABLE BODIES OF OPINION IN THE OPPOSING
FACTIONS WAS REALLY BETWEEN NIL AND 12 1/2 PERCENT. THE
CONSERVATIVE FIGURE OF 7 1/2 PERCENT IS ITSELF A
COMPROMISE BETWEEN RECOGNITION OF THE NFU'S CLAIM AS
JUSTIFIED AT LEAST FOR LIVESTOCK AND AN ACKNOWLEDGEMENT

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THAT A MORE THAN GENTLE KICK TO THE RATE OF FOOD PRICE
INFLATION WILL BE NATIONALLY (AND PERHAPS ELECTORALLY)
DAMAGING. ON THE LABOUR SIDE, THE 5 PERCENT PROPOSAL
WAS FORCED ON THEM BY A COMBINATION OF CIRCUMSTANCES:
A CONSERVATIVE INITIATIVE GIVEN TEETH BY THE PROBABILITY
THAT THE LIBERALS WITH THEIR COMMITMENT TO 10 PERCENT
WOULD NOT SUPPORT THE GOVERNMENT ON THIS ISSUE.

4. WHERE THERE IS POTENTIAL FOR GREATER DAMAGE IS IN
RELATIONS WITH OTHER EC COUNTRIES AND IN REGARD TO

RESTRUCTURING THE CAP BUT THE ISSUES ARE FAR FROM CLEAR.
HMG IS CLAIMING THAT DEVALUATION'S POTENTIAL VALUE AS A
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TRUMP CARD IN WRESTING CONCESSIONS AT THE EC PRICE
REVIEW, ON GAINING PERMANENCE FOR THE BEEF PREMIUM
SYSTEM AND ON EXTENSION AND POSSIBLY INCREASE IN THE
CONSUMER BUTTER SUBSIDY FOR EXAMPLE, HAS BEEN IMPAIRED.
MOREOVER, THE CASE FOR A CHANGE IN THE METHOD OF
CALCULATING PIGMEAT MCA'S MAY HAVE BEEN BLUNTED. MORE
IMPORTANTLY PERHAPS, THE UK'S INTRANSIGENCE OVER HIGHER
EC-WIDE PRICES, PARTICULARLY FOR THOSE SECTORS WITH A
PROPENSITY TO OVER-PRODUCE, WILL, SOME ARE CLAIMING, BE
MUCH HARDER TO MAINTAIN. THE IMMEDIATE REACTIONS OF
W. GERMANY, NETHERLANDS AND BELGIUM IS REFUSING IMMEDIATE
SANCTION TO THE UK'S 7 1/2 PERCENT DEVALUATION PROPOSAL
IS A SYMPTOM OF SUSPICION IN THOSE COUNTRIES, WHOSE
FARMERS STAND TO LOSE MOST FROM THE COMMISSION'S
PROPOSAL FOR AN AVERAGE INCREASE OF ONLY 1.9 PERCENT,
THAT THE UK IS TRYING TO HAVE THE BEST OF BOTH WORLDS
IN OBTAINING AN ADVANCE 8 PERCENT RISE FOR ITS OWN
FARMERS WHILE OPPOSING RISES FOR ANYBODY ELSE. THE UK
DEVALUATION ADDED TO THE PENDING MOVES ON THE FRENCH AND
ITALIAN GREEN RATES COULD NOT HAVE HAPPENED AT A WORSE
TIME FOR THE EC PRICE FIXING PROCESS EVEN THOUGH THE
COMMUNITY BUDGET STANDS TO GAIN BY THE FALL IN MCA
OUTLAYS.

5. YET AGAIN, THE PRESENT CIRCUMSTANCES SHOW HOW TOTALLY
UNSUITABLE GREEN RATE MANIPULATION IS AS AN
INSTRUMENT FOR CORRECTING NATIONAL PROBLEMS WITH CERTAIN
SECTORS. HAVING, FOR EXAMPLE, MANAGED TO HAVE DECLARED
ILLEGAL THE UK'S TEMPORARY PIG SUBSIDY AND HAVING
REFUSED TO AMEND THE PIGMEAT MCA CALCULATION METHOD, THE
EC IS TRAPPED IN THE LOGIC OF ITS OWN SYSTEM: THE ONLY
RECOURSE LEFT FOR THE UK IS TO DEVALUE THE GREEN POUND
WHICH BENEFITS THE WHOLE OF BRITISH AGRICULTURE IN ORDER
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TO BRING SOME RELIEF TO ONE OR TWO SECTORS. THOSE
SECTORS WHICH DO NOT REQUIRE HELP WILL NOW GET A HEFTY
PRICE INCREASE WHICH THE REST OF THE EC FEARS WILL LEAD
TO GREATER BRITISH PRODUCTION OF THOSE COMMODITIES
ALREADY IN SURPLUS IN THE COMMUNITY.

6. BACK IN BRITAIN, THE BITTERNESS OF THE NFU OVER THE

CONTINUING OVER-VALUATION OF THE GREEN POUND IS UNDER-
STANDABLE. IN 1973 BRITISH FARMERS LOOKED TO JANUARY 1,
1978 AS THE DATE ON WHICH THEY WOULD RECEIVE THE SAME
PRICES AS THEIR COLLEAGUES IN THE ORIGINAL "SIX."
INSTEAD THEY GET ABOUT 30 PERCENT LESS WHILE THEIR NON-
AGRICULTURAL INPUTS MOSTLY COST THE SAME AS ELSEWHERE IN
THE COMMUNITY. THE OTHER EIGHT AND THE COMMISSION
CONTINUE TO DEPLORE IN GENERAL TERMS HMG'S RECORD AS A
BAD EUROPEAN AND THE DRAIN ON THE BUDGET BECAUSE OF
MCA'S. BUT AT THE SAME TIME, THE CONSTRAINTS ON UK
AGRICULTURAL PRODUCTION AND THE SUBSIDIES ON THEIR
EXPORTS HERE RESULTING FROM THE HIGH GREEN POUND ARE
BENEFITS WHICH THEY CANNOT LIGHTLY FORGO. INDEED THE
PRESENT STRAINS ON THE CAP DERIVING FROM THE BRITISH
ATTITUDE COULD WELL BE LESS SEVERE THAN THE STRAINS WHICH
WOULD ARISE IF BRITISH FARMERS' PRICES REACHED PARITY
WITH WHAT THEIR COUNTERPARTS IN GERMANY NOW RECEIVE.

BREWSTER

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